Supreme Court, U.S.
FILED
JAN 24 2005
OFFICE OF THE CLERK

(22)

No. 04-480

IN THE
Supreme Court of the United States

METRO-GOLDWYN-MAYER STUDIOS INC., *et al.*,
Petitioners,

v.

GROKSTER, LTD., *et al.*,
Respondents.

On Writ of Certiorari
to the United States Court of Appeals
for the Ninth Circuit

BRIEF FOR SONGWRITER AND MUSIC PUBLISHER PETITIONERS

KELLI L. SAGER
ANDREW J. THOMAS
JEFFREY H. BLUM
JEFFREY L. FISHER
DAVIS WRIGHT
TREMAINE LLP
865 South Figueroa Street
Los Angeles, CA 90017
(213) 633-6800

CAREY R. RAMOS
Counsel of Record
PETER L. FELCHER
AIDAN SYNNOTT
THEODORE K. CHENG
JOHN H. LONGWELL
BRIAN L. URBANO
PAUL, WEISS, RIFKIND,
WHARTON & GARRISON LLP
1285 Avenue of the Americas
New York, NY 10019-6064
(212) 373-3000

January 24, 2005

Counsel for Songwriter and Music Publisher Petitioners

QUESTION PRESENTED

Whether secondary copyright liability extends to companies whose Internet-based "file sharing" services facilitate copyright infringement and exploit it through advertising, when such liability provides the only practical remedy for widespread infringement of copyrights, will not thwart legitimate uses of file-sharing technology, and will spur demand for legitimate online distribution of music.

PARTIES TO THE PROCEEDING AND CORPORATE DISCLOSURE STATEMENT

The petitioners here and appellants below are Metro-Goldwyn-Mayer Studios Inc., Columbia Pictures Industries, Inc.; Disney Enterprises, Inc.; Warner Bros. Entertainment Inc. (as successor-in-interest to the Filmed Entertainment Division of Time Warner Entertainment Company, L.P.); New Line Cinema Corp.; Paramount Pictures Corp.; Twentieth Century Fox Film Corp.; Universal City Studios LLP (f/k/a Universal City Studios, Inc.); Arista Records, Inc.; Atlantic Recording Corp.; Rhino Entertainment Co.; Bad Boy Records; Capitol Records, Inc.; Elektra Entertainment Group Inc.; Hollywood Records, Inc.; Interscope Records; LaFace Records, Inc.; London-Sire Records Inc.; Motown Record Co., L.P.; The RCA Records Label, a unit of BMG Music d/b/a BMG Entertainment; Sony Music Entertainment Inc.; UMG Recordings, Inc.; Virgin Records America, Inc.; Walt Disney Records; Warner Bros. Records, Inc.; WEA International Inc.; Warner Music Latina Inc.; Zomba Recording Corp.; Jerry Leiber, individually and d/b/a Jerry Leiber Music, Mike Stoller, individually and d/b/a Mike Stoller Music, Peer International Corporation, Songs of Peer, Limited, Peer Music, Limited, Criterion Music Corporation, Famous Music Corporation, Bruin Music Company, Ensign Music Corporation, and Let's Talk Shop, Inc. d/b/a Beau-Di-O-Do Music.

The appellees below are respondents here are Grokster, Ltd. and StreamCast Networks, Inc.

Pusuant to Rule 29.6, the Songwriter and Music Publisher petitioners refer to the corporate disclosure statement contained in the petition for a writ of certiorari.

TABLE OF CONTENTS

	Page
QUESTION PRESENTED	i
PARTIES TO THE PROCEEDINGS AND CORPORATE DISCLOSURE STATEMENT	ii
TABLE OF AUTHORITIES	iv
OPINIONS BELOW	1
JURISDICTION	1
STATUTES INVOLVED	1
STATEMENT	1
SUMMARY OF ARGUMENT	8
ARGUMENT	10
I. BECAUSE GROKSTER AND STREAMCAST INTENTIONALLY EXPLOIT COPYRIGHT INFRINGEMENT, HOLDING THEM LIABLE IS CONSISTENT WITH ESTABLISHED PRINCIPLES OF SECONDARY LIABILITY.	10
II. HOLDING GROKSTER AND STREAMCAST LIABLE IS THE ONLY EFFECTIVE WAY TO ENFORCE THE COPYRIGHT ACT.	14

III. HOLDING GROKSTER AND STREAMCAST LIABLE WILL ENCOURAGE, NOT RESTRAIN, LEGITIMATE COMMERCE 17

CONCLUSION 21

TABLE OF AUTHORITIES

Page

CASES

A & M Records, Inc. v. Napster, Inc.,
114 F. Supp. 2d 896 (N.D. Cal. 2000) 1, 10, 12

2001 WL 227083 (N.D. Cal. Mar. 5, 2001), *aff'd*, 239 F.3d 1004 (9th Cir. 2001) 11

In re Aimster Copyright Litig.,
252 F. Supp. 2d 634 (E.D. Ill. 2002) 12

344 F.3d 643 (7th Cir. 2003) 15

Eldred v. Ashcroft,
537 U.S. 186 (2003) 20

Fantasy Sports Props. v. Sportsline.com,
287 F.3d 1108 (Fed. Cir. 2002) 18

Fonovisa, Inc. v. Cherry Auction, Inc.,
76 F.3d 259 (9th Cir. 1996) 10

Polygram Int'l Publishing, Inc. v. Nevada/TIG, Inc., 855 F. Supp. 1314 (D. Mass. 1994) 14

Shapiro, Bernstein & Co. v. H.L. Green Co.,
316 F.2d 304 (2d Cir.
1963) 14

Sony Corp. of America v.
Universal City Studios, Inc.,
464 U.S. 417 (1984) 8, 17, 20

Ted Browne Music Co. v. Fowler,
290 F. 751 (2d Cir.
1923) 10

CONSTITUTION AND STATUTES

U.S. Const., Art. I, § 8 20

17 U.S.C. § 106(1) 2

17 U.S.C. § 106(3) 2

17 U.S.C. § 115(a) 3

17 U.S.C. § 115(c)(3)(H)(i) 5

17 U.S.C. § 201(a) 2

28 U.S.C. § 1254(1) 1

Digital Performance Right in Sound
Recordings Act of 1995,
Pub. L. No. 104-39 4

REGULATIONS

37 C.F.R. § 255.3(l) 3

LEGISLATIVE MATERIALS

150 CONG. REC. S7178-01
(daily ed. June 22, 2004) 7

H.R. Rep. No. 2222 (1909) 4

Pre-1978 Distrib. of Recordings Containing Musical Compositions; Copyright Term Extension; and Copyright Per Program Licenses: Hearing Before the Subcomm. on Courts and Intellectual Prop. of the House Comm. on the Judiciary, 105th Cong. at 134 (1997)
(statement of Hoagy Bix Carmichael) . . 5

S. Rep. No. 104-128 (1995) 4

ADMINISTRATIVE MATERIALS

DOJ's Task Force on Intellectual Property,
REPORT (2004), *available at*
http://www.usdoj.gov/ag/speeches/
2004/ip_task_force_report.pdf 8, 15

OTHER MATERIALS

David Bernstein, *Songwriters Say Piracy Eats Into Their Pay*, N.Y Times, Jan. 5, 2004 , *available at* 2004 WLNR 5581478 . . . . . 6, 8

Jim Bessman, *Words & Music: Celebrations Won't Stop*, Billboard, July 3, 2004, *available at* 2004 WL 79318554 6

Frank H. Easterbrook, *Cyberspace & the Law of the Horse*, 1996 U. Chi. L. F. 207 (1996). 19

John Gerome, *Federal Government Takes Aim at Music Piracy*, Associated Press (Aug. 16, 2004), *available in* AP-WIRESPLUS database on Westlaw . . . 6

Lev Grossman, *It's All Free*, Time, May 5, 2003. 6

W. Page Keeton, et al., PROSSER & KEETON ON THE LAW OF TORTS (5th ed. 1984) . 10

Al Kohn & Bob Kohn, KOHN ON MUSIC LICENSING (3d ed. 2002) 2

Melville B. Nimmer & David Nimmer, NIMMER ON COPYRIGHT (2002) 4, 14

Mike Stoller, Editorial, *Songs That Won't Be Written*, N.Y. Times, Oct. 7, 2000, *available at* 2000 WLNR 3279632 . . . 8

Tim Wu, *When Code Isn't Law*, 89 Va. L. Rev. 679 (2003) . . . . . *passim*

Alfred C. Yen, *Internet Service Provider Liability for Subscriber Copyright Infringement, Enterprise Liability, and the First Amendment*, 88 Geo. L.J. 1833 (2000). 14

OPINIONS BELOW

The opinion of the Court of Appeals is reported at 380 F.3d 1154, and is reprinted in the Appendix to the Petition ("Pet. App.") at 1a-22a. The District Court's opinion is reported at 259 F. Supp. 2d 1029, and is reprinted at Pet. App. 23a-56a.

JURISDICTION

The Court of Appeals entered its judgment on August 19, 2004. The petition for a writ of certiorari was timely filed on October 8, 2004. This Court has jurisdiction under 28 U.S.C. § 1254(1).

STATUTES INVOLVED

This case involves provisions of the Copyright Act, 17 U.S.C. § 101, *et seq*. The pertinent provisions are reproduced at Pet. App. 57a-60a.

STATEMENT

This brief is filed on behalf of a certified class of over 27,000 songwriters and music publishers who own the copyrights in more than 2.5 million songs. JA304. These include some of the most popular (and frequently licensed) songs in American music history, such as "Jailhouse Rock," "Moon River," and "Respect." JA295, 315, 484, 486.

The songwriters and music publishers have united in this and other cases to confront "the monster that is now devouring their intellectual property rights." ***A & M Records, Inc. v. Napster, Inc.***, 114 F. Supp. 2d 896, 924 (N.D. Cal. 2000). In a series of lawsuits, they have challenged each of the companies — Napster, Aimster, and now Grokster and StreamCast — that have sought to profit from the infringement of musical works on a massive scale by users of the companies' Internet services.

The purpose of this brief is not to repeat the facts and legal analysis articulated in the brief filed by the recording and motion picture studio petitioners, which we fully support.[1] Rather, we wish to supplement it in three ways. First, we describe the unique provisions of the Copyright Act dealing with the rights of songwriters and music publishers and how the misappropriation of those rights in this case has inflicted direct and profound harm on the professional songwriting community. Second, we explain why the imposition of liability on Grokster and StreamCast for their central role in causing that harm is appropriate in the circumstances of this case. Finally, we write to dispel further the specious argument advanced by the respondents below that holding them legally responsible for their conduct will somehow restrain legitimate commerce.

1. Songwriters — both composers and lyricists — are the authors of musical works in whom a copyright initially vests. 17 U.S.C. § 201(a). The copyright in a musical composition includes, among other rights, the exclusive right to make and distribute recordings of it. *See id.* §§ 106(1), (3). Songwriters typically assign their rights to music publishing companies, which, in exchange for a share of royalties, promote and license songs to record companies and performing artists. *See generally* AL KOHN & BOB KOHN, KOHN ON MUSIC LICENSING 79-101 (3d ed. 2002) ("*Kohn*").[2]

[1] The songwriters' and music publishers' lawsuit against Grokster and StreamCast was consolidated in the District Court and the Court of Appeals with a case against the same defendants brought by the recording and motion picture industries. Although the interests of the copyright owners in both cases are aligned, and they filed a joint petition for a writ of certiorari in this Court, the songwriter and music publisher petitioners appear now separately, as they did in the courts below.

The value of a copyrighted song derives from the right of its author to control its availability. Songwriters — and their publishers — typically do not engage in the manufacture and distribution of recordings of their songs; instead, they rely on *licensing* for their livelihoods — and for the incentive to create new works. The Copyright Act grants songwriters the right to prevent unlicensed use of their works, but it limits their freedom to choose how and to whom those works are licensed.

Unlike copyrights in other forms of artistic expression, the rights of authors of nondramatic musical works are subject to "compulsory licensing" under the Copyright Act. *See* 17 U.S.C. § 115(a).[3] After initial publication or recording of a song, the songwriter is required to provide a license to anyone wishing to copy the song, in exchange for a statutorily-prescribed royalty (currently 8½ cents per copy). *See* 37 C.F.R. § 255.3(l) (2005). Congress enacted this provision to strike a balance between making musical compositions readily available to the general public and ensuring that songwriters and publishers receive an "adequate return for the value of [their] com-

[2] Recordings of musical works are subject to a separate copyright from that arising out of authorship of the composition. Thus, for example, someone wishing to distribute copies of Frank Sinatra's rendition of Cole Porter's "I've Got You Under My Skin" would require two separate licenses: one from Porter's music publisher, and one from Sinatra's record label. *See Kohn* at 11.

[3] Literary works, motion pictures, most uses of sound recordings, and other copyrighted works generally are not subject to a compulsory license.

positions." H.R. Rep. No. 2222, at 6-7 (1909).[4] As Congress recognized, "[t]he only way to effect both purposes . . . was, after giving the composer the exclusive right to prohibit the use of his music by mechanical reproducers, to provide that if he . . . permitted the use of his music for such purpose, then, upon the payment of a reasonable royalty, all who desired might reproduce the music." *Id.* at 6. For almost a century, the obligation to obtain licenses and pay the statutorily determined royalty rate has been the "essential *quid pro quo*" for imposing the compulsory license upon songwriters and music publishers. *Nimmer* § 8.04[H][1], at 8-76.

In 1995, Congress amended the Copyright Act to confirm that this regime extends to the distribution of sound recordings by digital transmission on the Internet. *See* Digital Performance Right in Sound Recordings Act of 1995, Pub. L. No. 104-39 (codified as amendments to 17 U.S.C. § 115). By doing so, Congress recognized that the copyright laws regarding musical compositions should operate no differently in the "online" realm than in the "offline" world. *See, e.g.*, S. Rep. No. 104-128, at 37 (1995) (the amendments "maintain and reaffirm the mechanical rights of songwriters and music publishers as new technologies permit phonorecords to be delivered by wire or over the airwaves rather than by the traditional making and distribution of records, cassettes and CD's."). Those who wish to distribute digital copies of musical works are assured of obtaining a license, while songwriters and music publishers retain the right to receive the statutory royalty rate for such transmissions. Congress also anticipated that the ease of digital distribution on the Internet would facilitate unauthorized uses. Accordingly, Congress affirmed that the unauthorized digital distribution of a copyrighted work is an act of infringement under section 501 of the Copyright Act, subject to all of the remedies available under the Act. *See* 17 U.S.C. § 115(c)(3)(H)(i).

[4] The provision was first introduced with the passage of the Copyright Act of 1909, when the recording industry was in its infancy and Congress became concerned that a single piano roll manufacturer — the Æolian Company — would secure a monopoly by buying up all the recording rights from popular songwriters. *See* 2 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8.04[A], at 8-58.3 (2002) ("*Nimmer*").

Songwriters earn a significant part of their living through royalties paid in compliance with this compulsory licensing regime. JA306, 307, 309. More often than not, these creators are not household names; more often than not, their love of their work must subsidize it. Songwriting always has been a profession characterized by a high degree of failure and, even in many "successful" cases, low pay.[5]

2. On top of an already difficult economic scenario, the impact of Internet piracy on professional songwriters has been staggering. With the growing availability of increased bandwidth, millions of users have flocked to the file-swapping services provided by Grokster and StreamCast. There, they can obtain for free perfect digital copies of almost every popular song ever released, entirely circumventing the Copyright Act's licensing regime. These users either fail to appreciate that downloading a copyrighted song on these services is illegal, or they do

[5] According to a 1997 estimate, the total average annual income of a professional songwriter in that year was between $5,000 and $20,000. *Pre-1978 Distrib. of Recordings Containing Musical Compositions; Copyright Term Extension; and Copyright Per Program Licenses: Hearing Before the Subcomm. on Courts and Intellectual Prop. of the House Comm. on the Judiciary*, 105th Cong. at 134 (1997) (statement of Hoagy Bix Carmichael).

not care. *See* Tim Wu, *When Code Isn't Law*, 89 Va. L. Rev. 679, 722-26 (2003) ("*Wu*") (discussing studies showing that "those who use filesharing networks do not think they are stealing"). But whether the millions of Grokster and StreamCast users are ignorant of or indifferent to the law, the impact is the same: there is no need ever to buy a CD or to use any of the legitimate online music services that properly compensate songwriters for creating their compositions, and music publishers for distributing copies of them.

The precise economic harm inflicted on songwriters by services like Grokster and StreamCast is difficult to quantify, but it is indisputably vast. It has been estimated that more than 2.6 billion songs per month are illegally downloaded from such services. *See* Lev Grossman, *It's All Free*, Time, May 5, 2003. If the statutory royalty rate was paid for each of those songs, it would amount to $2.625 billion in combined annual income for the thousands and thousands of songwriters and music publishers entitled to it. Not surprisingly, songwriters and music publishers have seen income from statutory royalties fall precipitously with the rise of file-swapping services. *See, e.g.*, Jim Bessman, *Words & Music: Celebrations Won't Stop*, Billboard, July 3, 2004 at 2, *available at* 2004 WL 79318554 (statutory royalties down 12 percent since 2002); David Bernstein, *Songwriters Say Piracy Eats Into Their Pay*, N.Y Times, Jan. 5, 2004 at C6 ("*Bernstein*"), *available at* 2004 WLNR 5581478 (royalties down 22 percent since Napster, in contrast to 24 percent growth in the four years before Napster).

The inevitable result of this loss of revenue to songwriters is clearly reflected in human terms. According to one estimate, half of the music publisher staff songwriters in Nashville — the center of country music — have lost their jobs since Napster burst on the scene. *See* John

Gerome, *Federal Government Takes Aim at Music Piracy*, Associated Press (Aug. 16, 2004), *available in* AP-WIRESPLUS database on Westlaw. As Senator Bill Frist of Tennessee observed: "When I return home to Nashville and drive down Music Row, my heart sinks as I see the 'For Sale' and 'For Rent' signs everywhere. The once vibrant music community is being decimated by online piracy." 150 CONG. REC. S7178-01 (daily ed. June 22, 2004).

The Department of Justice's Task Force on Intellectual Property, convened by the Attorney General in 2004 in response to "the growing threat of intellectual property crime," included in the introduction to its report the following description of one songwriter's experience, which illustrates the real-world effects of services like Grokster and StreamCast:

> A well-known Nashville-based songwriter wrote a track on Jessica Simpson's best-selling album, "Sweet Kisses." By the time Simpson's album was released in 1999, this songwriter had used his talent and hard work to build a major song-writing firm in Nashville that employed eight additional songwriters and an office assistant. As with many song-writing businesses in New York or Los Angeles, the Nashville firm depended on royalties to pay salaries and cover expenses. "Sweet Kisses" was a commercial success for them and sold more than three million copies. But during a three-week period after its release, the album was illegally downloaded more than 1.2 million times, according to a Nashville-based firm that tracked the online theft of the album. As more and more of the firm's songs were illegally downloaded, the firm saw less and less income from royalties. The Nashville songwriter was forced to downsize, ulti-

> mately laying off all nine of his employees. Today, he is a one-man song-writing operation.
>
> DOJ'S TASK FORCE ON INTELLECTUAL PROPERTY, REPORT at iii (2004) ("*DOJ Report*"), *available at* http://www.usdoj.gov/ag/speeches/2004/ip_task_force_report.pdf.

This songwriter's experience, like that of many others, demonstrates that services like Grokster and StreamCast are restricting the Nation's creative output. *See also* Mike Stoller, Editorial, *Songs That Won't Be Written*, N.Y. Times, Oct. 7, 2000, at A15, *available at* 2000 WLNR 3279632 ("Many say that since making music is an art, artists like me should do it simply for the love of it. But how free can artists be to do what we love if we must spend most of our days doing something else to make a living?"). As the Executive Director of the Nashville Songwriters Association International said bluntly: "What [piracy] ultimately affects is the choice of music the public gets. When I have No. 1 songwriters working other jobs, we're not getting more music." *Bernstein, supra*, at C6.[6]

SUMMARY OF ARGUMENT

In *Sony Corp. of Am. v. Universal City Studios, Inc.*, this Court recognized that "the concept of contributory infringement is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another." 464 U.S. 417, 435 (1984) ("*Sony*"). Over the past 100 years, this Court and other federal courts have not hesitated to impose liability on "indirect" infringers when to do so is fundamentally fair, necessary to enforce the Copyright Act, and (at least since *Sony*) not likely to thwart legitimate commerce.

[6] *See also DOJ Report* at 7 ("The creation of intellectual property — from designs for new products to artistic creations — unleashes our nation's potential . . . . When intellectual property is misappropriated, the consequences are far more devastating than one might imagine.").

The traditional considerations favoring imposition of secondary liability are present here. It will work no injustice to Grokster and StreamCast, which have knowingly been feeding at the trough of Internet piracy. On the other hand, secondary liability provides the only practical relief for ongoing and rampant violation of petitioners' rights and, therefore, is essential for effective enforcement of the Copyright Act. And there is simply no downside — liability for Grokster and StreamCast will not thwart legitimate uses of file-sharing technology, and will spur demand for legitimate online distribution of music.

In this litigation to date, the courts have completely lost sight of these fundamental considerations. They have treated critical, undisputed facts — respondents' intentional exploitation for profit of infringement of copyrighted works, the overwhelming extent to which their services are used to infringe, and the ready availability of measures they could take to stem the tide of infringement — as irrelevant. Only in this way have Grokster and StreamCast managed to escape the liability that their predecessors faced. This Court should remedy that error.

ARGUMENT

I. BECAUSE GROKSTER AND STREAMCAST INTENTIONALLY EXPLOIT COPYRIGHT INFRINGEMENT, HOLDING THEM LIABLE IS CONSISTENT WITH ESTABLISHED PRINCIPLES OF SECONDARY LIABILITY.

The law of torts always has been hostile to intentional misconduct. *See* W. PAGE KEETON, ET AL., PROSSER & KEETON ON THE LAW OF TORTS § 8 at 37 (5th ed. 1984) ("There is a definite tendency to impose greater responsibility upon a defendant whose conduct was intended to do harm, or was morally wrong."). As explained more fully in the brief of the recording company and movie studio petitioners, that hostility properly extends to analysis of claims of secondary copyright liability. *See also Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996) ("[T]he common law doctrine that one who knowingly participates in or furthers a tortious act is jointly and severally liable with the prime tortfeasor, is applicable under copyright law[.]"); *Ted Browne Music Co. v. Fowler*, 290 F. 751, 754 (2d Cir. 1923) (same). The reason is plain — when a party exploits the rights of others, there is justice in imposing liability even when that party is one or more steps removed from the immediate infringement of those rights. A party who knowingly facilitates infringement for profit has a very weak claim to the benefit of a tightly drawn liability net.

Grokster and StreamCast are in the business of exploiting infringement. The phenomenal popularity of Napster made it plain that there was a massive audience of computer users who wanted "free" music and were willing to violate the copyright laws to get it. Napster, which began as "the brainchild of a college student who wanted to facilitate music-swapping by his roommate," *Napster*, 114 F. Supp. 2d at 902, soon inspired profit-minded offspring like Grokster and StreamCast, who saw dollar signs in the idea of advertising to the vast and growing audience of illegal file-swappers. Their business model was unoriginal — establish contact with as many "eyeballs" on the Internet as possible, and market that audience to advertisers. Grokster and StreamCast made their software available for "free," and designed it to receive automatically broadcasts of advertising whenever a user is connected to the Internet. That way, each time a user logs on, he becomes a subscriber to advertising for which Grokster and StreamCast are paid. Unlike the many legitimate Internet content providers that followed this strategy, however, the content to which Grokster and StreamCast provide access in their quest to attract a large audience is almost entirely illegal — as Grokster and StreamCast well know.

The profit-driving concept behind respondents' services — the transactional *quid pro quo* — is that file-swappers implicitly, and necessarily by reason of the software's design, agree to receive advertising in return for "free" access to music and other copyrighted content. The advertising dollars that make up the vast majority of the revenues of Grokster and StreamCast, therefore, are simply a transfer of wealth from the holders of the copyrights that are being infringed to the enablers of the infringement, who have a direct and continuing commercial relationship with the direct infringers. In this sense, the very business models on which Grokster and StreamCast operate, as the district court found, "depend upon . . . infringement." *See* Pet. App. 50a (district court opinion). Neither company has ever disputed this parasitic relationship.

If Grokster and StreamCast ever doubted that their services were facilitating infringement, that was dispelled when Napster was enjoined. *See A & M Records, Inc. v. Napster, Inc.*, 2001 WL 227083 (N.D. Cal. Mar. 5,

2001), *aff'd*, 239 F.3d 1004 (9th Cir. 2001). But rather than being deterred by Napster's legal troubles, Grokster and StreamCast saw an opportunity to profit from the demise of the service that had served as their inspiration. While Napster was in its heyday, respondents had accumulated millions of users on copycat "openNap" systems — essentially Napster clones based on unauthorized versions of Napster software. JA532, 746-47, 778. When it became clear that such systems were illegal, respondents migrated their users through forced "upgrades" to new software that had been carefully tailored to avoid one technological feature that the courts had found problematic: Napster's central indexing system. JA531-32, 591, 598, 747-48.[7] They also deliberately disabled features, such as Grokster's registration function, that would have made stemming the flow of illegal uses of their systems easier. JA954.

With these design modifications, which actually *sacrificed* efficiency and user-friendliness,[8] the companies schemed to avoid liability while welcoming Napster's massive user base. As StreamCast stated in an internal e-mail, "[w]e have put this network in place so that when

[7] Although courts had pointed to Napster's maintenance of an indexing system on its own servers as one aspect illustrating its involvement with the infringement, *see Napster*, 114 F. Supp. 2d at 906-07; *In re Aimster Copyright Litig.*, 252 F. Supp. 2d 634, 641 n.6 (E.D. Ill. 2002), prior to this case they never indicated it was a *prerequisite* to liability. As explained more fully by the record companies and movie studios, it was error for the Court of Appeals to place dispositive weight on this single technological feature, as if it were the *sine qua non* for secondary liability on the Internet.

[8] *See, e.g.*, *Wu*, *supra*, at 722 ("The existence of fewer intermediaries . . . makes it harder for users to use the system, creates a greater risk of system crashes, and increases the risk of anonymous attacks.").

Napster pulls the plug on their free service (or if the Court orders them shut down prior to that), we will be positioned to capture the flood of their 32 million users that will be actively looking for an alternative." JA861. That is precisely what happened. Promoting itself as "[t]he #1 Alternative to Napster," StreamCast (then operating under the name "MusicCity") bragged in an advertisement that "[w]hen the lights went off at Napster . . . where did the users go? MusicCity.com." JA836.

To date, respondents' plan has paid off handsomely. Grokster and StreamCast have made millions by selling advertising to their vast audiences of swappers of pirated works. *See, e.g.*, Pet. App. 50a (District Court opinion). They also earn income from other software vendors by bundling those vendors' programs — including "spyware," which collects valuable information about the users' Internet activities and reports that information back to the "spyware" source — with their "free" file-swapping software. JA348-51. It is not surprising that the companies have been successful — they are the equivalent of a media outlet that can attract massive audiences without spending a penny on valuable content.

What is surprising, however, is that so far the companies have gotten away with brazenly facilitating and exploiting the infringement of petitioners' rights. The record companies and movie studios explain the wrong-headed reasoning of the Court of Appeals that has allowed them to do so, and we will not repeat those arguments here. Suffice it to say that, applying the bedrock rule that one should not escape liability for the intentional infliction of a wrong, this Court should ensure, through the imposition of secondary liability, that Grokster and StreamCast profit from infringement no more.

II. HOLDING GROKSTER AND STREAMCAST LIABLE IS THE ONLY EFFECTIVE WAY TO ENFORCE THE COPYRIGHT ACT.

The origins of secondary copyright liability lie in judicial efforts to provide a meaningful remedy for violations of the Copyright Act. *See generally Nimmer* § 12.04[A] at 12-71-72. *See also, e.g., Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304, 307 (2d Cir. 1963) ("When the right and ability to supervise coalesce with an obvious and direct financial interest in the exploitation of copyrighted materials, . . . the purposes of copyright law may be best effectuated by the imposition of liability upon the beneficiary of that exploitation.").[9] The goal of providing an adequate remedy for infringement has been found sufficiently important to support the imposition of *strict* secondary liability. *Shapiro, Bernstein*, 316 F.2d at 307. *A fortiori*, when adequate protection of copyright depends on extending liability to an intentional exploiter of infringement, courts should not be reluctant to hold the exploiter accountable.

---

[9] *See also Polygram Int'l Publishing, Inc. v. Nevada/TIG, Inc.*, 855 F. Supp. 1314, 1325 (D. Mass. 1994) ("The enterprise and the person profiting from it are better able than either the innocent injured plaintiff or the person whose act caused the loss to distribute the costs and to shift them to others who have profited from the enterprise. In addition, placing responsibility for the loss on the enterprise has the added benefit of creating a greater incentive for the enterprise to police its operations carefully to avoid unnecessary losses."); Alfred C. Yen, *Internet Service Provider Liability for Subscriber Copyright Infringement, Enterprise Liability, and the First Amendment*, 88 Geo. L.J. 1833, 1856 (2000) ("Enterprises that create risk should bear the burden of that risk as a cost of doing business. Such cost internalization is more than just fair. It encourages risk creators to take precautions against loss, it provides compensation for victims, and it spreads the costs among all who benefit from the risk-creating activity.").

It is undisputed that the rampant infringement occurring on the services of Grokster and StreamCast is a major incursion on petitioners' rights. *See, e.g., DOJ Report, supra*, at 46 ("Computer networks that facilitate the unauthorized sharing and copying of copyrighted works by users are some of the most dangerous threats to copyright ownership today."). Those services also present a classic illustration of "the impracticability or futility of a copyright owner's suing a multitude of individual infringers." *In re Aimster Copyright Litigation*, 344 F.3d 643, 645 (7th Cir. 2003). For songwriters and music publishers to police the conduct of millions of individual users of Grokster and StreamCast and to pursue individual enforcement actions against private individuals is an impossible task. There are tens of thousands of songwriters and music publishers (more than 27,000 in the petitioner class alone). Many of them are individuals or small businesses. JA302-03, 304. Grokster's and StreamCast's services have *millions* of users. It is not realistic to expect individual songwriters and music publishers of modest means to incur the expense of finding and filing suit against millions of individual infringers of their works.

In such circumstances, if infringement "can be prevented most effectively by actions taken by a third party, it makes sense to have a legal mechanism for placing liability for [its] consequences . . . on him[.]" *Aimster*, 344 F.3d at 646. That is undeniably the case here. As explained more fully by the record companies and movie studios, Grokster and StreamCast could take steps to limit sharply the infringement that occurs on their services, through registration and log-in features and through readily available filtering technology. Such features are common among legitimate online service providers because they protect the integrity of the service and provide valuable market data. *See Wu, supra*, at 719 ("[E]liminating

intermediaries decreases control over the network. The loss of control makes it difficult to ensure performance on a mass scale, to establish network trust, and even to perform simple tasks like keeping statistics.").

Indeed, there can be little doubt that if Grokster and StreamCast were designing their services for maximum efficiency instead of engaging in a game of copyright cat-and-mouse, the services would be quite different. For example, there would have been no reason for Grokster to instruct the designer of its software to deactivate the registration feature. JA954. There would have been no reason for StreamCast to reject out of hand a proposal from a file-blocking technology vendor simply because it would "allow us to see what our users are sharing.'" JA928-29. And there would have been no reason for StreamCast to develop and publish promotional materials that deliberately blurred the titles of obviously infringing content available on its service. JA854-56.

The reason Grokster and StreamCast engaged in this behavior is obvious — they were deliberately removing or excluding certain features from their services not for legitimate business reasons but in order to exploit loopholes they perceived in the Ninth Circuit's *Napster* opinion, which they read to suggest that the absence of such features would provide them immunity. *See Wu*, *supra*, at 737 ("Programmers wrote FastTrack and Gnutella to exploit loopholes left by the *Napster* decision."). The Court of Appeals' endorsement of that stratagem perverts the very purpose of secondary copyright liability by rewarding the party that profits from the infringement at the expense of the rightsholder. Because the Copyright Act cannot be enforced effectively by requiring songwriters and music publishers to sue individual users of Grokster's and Streamcast's services, it is manifestly just to hold the operators of those services liable when they are directly

profiting from infringement that they successfully sought to exploit and then deliberately avoided taking measures to deter.

III. HOLDING GROKSTER AND STREAMCAST LIABLE WILL ENCOURAGE, NOT RESTRAIN, LEGITIMATE COMMERCE.

The concern that prompted this Court to decline to impose secondary liability upon the makers of the Betamax in *Sony* was that, in the specific circumstances presented, liability would have tipped the balance between copyright protection and "the rights of others freely to engage in substantially unrelated areas of commerce" too heavily in favor of copyright. 464 U.S. at 442. As the Court recognized in that case, there was no way for Sony to design the Betamax to preclude unauthorized copying while preserving the legitimate, and predominant, "time-shifting" function of the device. *Id.* at 443. Thus, the imposition of liability would have prevented the sale of the Betamax for that noninfringing use (or would have brought such sale within the control of copyright owners).

The calculus is different here. Because Grokster and StreamCast have at their disposal ready methods for policing and limiting infringement, liability may be imposed to require them — and others who would follow their example — to adopt those methods without interfering with the purported legitimate use of their services for sharing non-protected files. Thus, unlike in *Sony*, the imposition of liability in this case will have no adverse effect on legitimate commerce. The Court of Appeals improperly gave short shift to this critical distinction.

Throughout this litigation, Grokster and StreamCast have attempted to blur the line between "peer-to-peer" technology, which is a generic term for the protocol that allows decentralized networking among individual Internet

users, and their services that use that technology in an application designed for the ready sharing of copyrighted music files (and the distribution of advertising to file-swappers). By obscuring that distinction, Grokster and StreamCast hope to paint the copyright owners as attempting to shut down or coopt a useful technology. But that is not petitioners' aim — we do not object to peer-to-peer technology *per se*, but to services that use that technology to facilitate and exploit copyright infringement while eschewing features to prevent it. Because the operators of such services can protect themselves by incorporating those features, the imposition of secondary liability will leave them free to exploit legitimate file-sharing and will not expand copyright protection beyond its purpose of limiting infringing conduct.

Grokster and StreamCast have engaged in another sleight of hand — one that contributed to the confusion in the Court of Appeals — by claiming to be mere purveyors of software that anonymous third parties happen to be misusing. But StreamCast's and Grokster's software is not a simple machine capable of copying. It, like all software, is "a set of instructions." *Fantasy Sports Props. v. Sportsline.com*, 287 F.3d 1108, 1118 (Fed. Cir. 2002). In this case, the instructions direct users' computers to link together so that copyrighted material can be "shared." The instructions also direct users' computers to poll respondents' servers for advertising, creating a tether between respondents and their infringing users without which they could not "monetize server traffic." JA750. That these critical functions are achieved through coded instructions in computer programs, rather than written instructions to accomplices in a piracy ring, should make no difference — unless one is prepared to accept respondents' invitation, as the Ninth Circuit apparently did, to place the

"peer-to-peer technology" in a special zone where established principles of secondary liability do not reach.[10]

In the aftermath of *Sony*, respondents have criticized petitioners for short-sightedness, pointing out that the VCR eventually created a new and highly profitable market (video rentals) for the movie studios. That comparison is completely inapt. The VCR is a *copying* machine — it did not infringe *distribution* rights, which the copyright owners were eventually able to exploit through video rentals and sales. Grokster and StreamCast, meanwhile, enable copying *and* distribution, leaving no market for the copyright owners to exploit.

Rather than having any ill effect on non-infringing exchanges of digital music or other content, the imposition of liability is likely to have two positive effects on the development of legitimate online services. First, to the extent that a market exists for services that facilitate sharing of works that are in the public domain or that have been authorized for free distribution, peer-to-peer applications will be tailored to cater to such file-sharing. There will be no incentive to avoid centralized indexing, registration and filtering for quality control, and other technological features that, despite their desirability from a functional perspective, have been avoided by services intent on evading copyright liability.

Second, liability will ensure that illegitimate services like Grokster and StreamCast will no longer be able to sap the demand for legitimate online music distribution services that take licenses and pay royalties. JA309.

---

[10] *But see* Frank H. Easterbrook, *Cyberspace & the Law of the Horse*, 1996 U. Chi. L. F. 207, 210 (1996) ("Most behavior in cyberspace is easy to classify under current property principles. What people freely make available is freely copyable. When people attach strings, they must be respected[.]").

Songwriters and music publishers have been struggling to support these nascent services in the face of unfair competition from Grokster and Streamcast that, by flouting copyright law, make the same songs available for "free." Forcing Grokster and StreamCast to internalize the costs of copyright protection will level the playing field.

* * *

Imposing secondary copyright liability on Grokster and StreamCast is essential if copyrights are to receive "effective — not merely symbolic — protection" in the digital age. *Sony*, 464 U.S. at 442. By immunizing Grokster and SteamCast from liability for the harm they create, the Court of Appeals has foreclosed songwriters from being compensated in the way the Copyright Act envisions. Modern-day Cole Porters or Irving Berlins will be denied the carefully balanced protections given to their predecessors, under a legal framework that ensured the public's access to musical compositions while providing an economic incentive for the authors to compose them. JA290-95.

This incentive is at the heart of copyright law, as conceived by the Framers in the Copyright Clause of the Constitution. *See* U.S. Const., Art. I, § 8 (establishing federal legistlative power "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries"); *see also Eldred v. Ashcroft*, 537 U.S. 186, 219 (2003) ("[T]he Framers intended copyright itself to be the engine of free expression. By establishing a marketable right to the use of one's expression, copyright supplies the economic incentive to create and disseminate ideas.").

If Grokster and StreamCast are permitted to continue to erode this incentive, the losers will be not just songwriters

and music publishers, but the public at large. As legendary songwriter Mike Stoller has said, "[f]ew people could afford to be professional artists if they are not paid for their work. That, without question, would mean a very different musical world. And we would all be poorer for it." JA294.

CONCLUSION

The judgment of the Court of Appeals should be reversed.

Respectfully submitted,

KELLI L. SAGER
ANDREW J. THOMAS
JEFFREY H. BLUM
JEFFREY L. FISHER
DAVIS WRIGHT TREMAINE LLP
865 South Figueroa Street
Los Angeles, CA 90017
(213) 633-6800

CAREY R. RAMOS
Counsel of Record
PETER L. FELCHER
AIDAN SYNNOTT
THEODORE K. CHENG
JOHN H. LONGWELL
BRIAN L. URBANO
PAUL, WEISS, RIFKIND, WHARTON & GARRISON LLP
1285 Avenue of the Americas
New York, NY 10019-6064
(212) 373-3000

January 24, 2005